

A photograph of a woman with dark hair, wearing a red top and a black patterned top, looking down at a document. The image is partially obscured by a blue banner at the top and a white banner at the bottom. The CRC logo is in the top left corner.

crc

THE \$19 MILLION ATM FEE

How Better Banking Services Would Protect
Our Public Investment in Families

A Report by the California Reinvestment Coalition
March 2014

The California Reinvestment Coalition (CRC) advocates for fair and equal access to financial institutions for California's low-income communities and communities of color. CRC is a coalition of three hundred nonprofit organizations and public agencies across California that work together for community economic vitality. CRC has been concerned for many years about the high cost of necessary financial services that make it even harder for low-income families to make ends meet. This report was prepared by Andrea Luquetta. Paulina Gonzalez, Sean Coffey and Jessica Martinez-Escobar provided helpful edits.

Special thanks for their help during the development of these proposals to: the EBT Working Group of the California Department of Social Services, the Alameda County Social Services Agency, the Bureau of Program & Policy of the Los Angeles County Department of Public Social Services, the Program Committee of the Alameda County Community Assets Network (AC-CAN), Yolanda Arias of the Legal Aid Foundation of Los Angeles, Kate Meiss of Neighborhood Legal Services of Los Angeles County, Antionette Dozier and Jessica Bartholow of Western Center on Law and Poverty, and Aleta Sprague at the New America Foundation.

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INTRODUCTION

The cost of basic financial services has never been higher. Checking account fees nationwide now cost account owners about \$52 billion a year.ⁱ Those who either don't have accounts or have accounts that are insufficient to their needs are paying \$4.4 billion a year to cash checks, buy money orders, use prepaid cards and pay bills in person.ⁱⁱ Money that could otherwise be used to pay for food, medicine, school supplies, utility bills, transportation to work and school or to save for emergencies is instead used to pay fees for the most common and necessary financial transactions.

Families are even spending public benefits to pay these fees. In California, approximately \$19 million a year is going to pay ATM fees with money generated by taxpayers and provided to struggling families through public assistance programs such as the CalWORKs program. CalWORKs is the state's program intended to "provide for protection, care, and assistance to the people of the state in need." This report focuses on CalWORKs recipients because they paying the majority (over 85%) of these fees. The state delivers CalWORKs and other cash aid programs primarily through Electronic Benefit Transfer (EBT) cards. The current EBT program provides recipients limited access to ATMs before charging fees to withdraw cash while most banks and other ATM owners charge a fee of up to \$4 every time someone uses an EBT cards in their machines. As a result, families that receive an average CalWORKs benefit of only \$510 a month use a significant portion of that money just to pay ATM fees.

Unfortunately, the \$19 million captures only the cost of using EBT cards. CalWORKs recipients who don't have access to affordable, full service bank or credit union accounts are paying additional fees to pay bills and make purchases using prepaid cards, money orders, check cashers and in-person pay locations. We estimate that an additional \$6.7 million of the state's CalWORKs funds is going to pay for these services.ⁱⁱⁱ In total, \$25.7 million of the state's aid meant to support the wellbeing of families is instead going to fees charged to conduct the most basic financial transactions.

CRC is working with state officials, county officials in Los Angeles County and Alameda County (in the San Francisco Bay Area) – two of California's most expensive areas where CalWORKs assistance is stretched the furthest, and with some of the largest financial institutions to reduce the amount of cash aid used to pay fees rather than to support families. We are building on existing efforts by state and county agencies to alert recipients to the prevalence of fees and ways to avoid them. With co-sponsor Western Center on Law and Poverty, we have introduced AB 1614, a bill that would make sure every CalWORKs recipients gets a monthly statement of transactions and clear information about their right to receive aid by direct deposit to a personal account and the comparative costs and benefits of doing so. We are working with large banks and other financial institutions to market to CalWORKs recipients accounts that avoid the most common and expensive fees, such as monthly service fees and overdraft fees.

Our goals are to:

1. Increase the use of free cash withdrawals options for EBT cards,
2. Increase access to fee-avoidant financial services, such as bank and credit union services that are free with direct deposit of CalWORKs cash aid, and,
3. Provide practical and ongoing support to CalWORKs recipients to help them save on fees.

This report presents proposals to achieve those goals developed through conversations from July 2013 to February 2014 with county and state administrators, financial institutions, and advocates and financial education providers that work with CalWORKs recipients. We invite stakeholders and allies to give us feedback and help us implement our plans by filling out the [\\$19 Million Fee Survey](#) or by contacting Andrea Luquetta directly by phone at 415-864-3980 or by email at aluquetta@calreinvest.org.

ATM FEES COST CALIFORNIA \$19 MILLION OF PUBLIC ASSISTANCE FUNDS

CalWORKs grants are a public investment in the wellbeing of California's poorest families. Only families with children qualify to receive CalWORKs aid. Having to pay fees for basic and necessary financial services erodes both our government's investment and the families' ability to thrive. Yet, that is exactly what is happening.

Roughly 450,000 California families receive cash aid through the CalWORKs program. The average family receiving aid consists of one adult and two children and receives a grant of \$510 per month, totaling about \$6,120 a year. To put this in perspective, the same family would need over 10 times that, \$65,519 a year, to meet basic needs for housing, health care, childcare, transportation, food, taxes and miscellaneous expenses in Los Angeles County, and \$66,326 in Alameda County.^{iv}

"I pay \$3 to use my EBT at the ATM, so I take it out in just two withdrawals every month. I've been doing that since I started getting CalWORKs when my son was born and he's two now."
Dominique, Alameda County

In 2012, over \$19 million a year of the state's public assistance funds went to pay for access to ATM services. The amount spent in just one month is enough to buy a year of school supplies, estimated at \$688, for 2,349 children. In Alameda County alone, families lost \$60,000 in CalWORKs funds a month to ATM fees in 2012- enough for over 25,500 round trip bus rides on AC Transit. In Los Angeles County, recipients lost over \$450,000 a month to fees- enough to pay \$5 co-pays for 90,000 prescriptions. These totals only include ATM fees. It does not include fees for cashing checks, paying bills through money orders, fees to load and use prepaid cards, or other fees charged by financial services providers that target unbanked households.

CalWORKs spent on ATM fees in one month in California could buy

a year of school supplies for 2,349 kids



CalWORKs spent on ATM fees in one month in Alameda County could buy

25,532 round trip bus rides

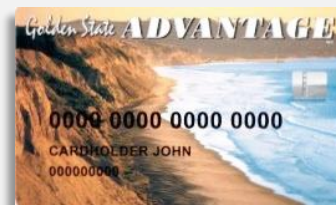


CalWORKs spent on ATM fees in one month in Los Angeles County could buy

co-pays for 90,000 prescriptions

EBT CARDS PROVIDE LIMITED SERVICES AT A HIGH PRICE

EBT cards look like bank-issued debit cards. A recipient gets access to her CalWORKs aid electronically through an EBT card just as those who access income directly deposited to a bank account through a debit card. A person can pay for goods at a register and get cash back with her EBT card by punching in a PIN, just like a person paying with a debit card would. However, that is where the similarities end.



California's EBT program is administered by Xerox State and Local Solutions, Inc., under a contract set to expire in 2015 unless the state exercises any of the three available one-year extensions. Xerox has subcontracted with MoneyPass, an ATM system owned by US Bank to provide EBT users with four withdrawals per month, after which EBT users must pay 80¢ per ATM withdrawal. Xerox also charges 25¢ to check the card's balance at MoneyPass locations. However, MoneyPass processes less than 9% of all EBT transactions. Most EBT transactions are processed by banks and other ATM owners that charge EBT users a significant fee, typically \$2 to \$3 per use or as high as \$4.00 per use. Check cashing stores also charge a fee to withdraw money using EBT cards- usually 1 to 2% of the amount withdrawn. In total, over \$19.4 million a year of CalWORKs and other public assistance funds are spent on fees and charges.

Other EBT services are also limited. EBT users are excluded from protections provided by the federal Electronic Funds Transfer Act, which among other protections limits liability for money spent by debit and credit card thieves. Although recent changes in state law protect benefits taken by electronic fraud, the state does not have to reimburse benefits taken when a thief steals and uses the EBT card itself. In addition, EBT cards can only receive and spend CalWORKs cash aid. CalWORKs recipients must manage all other income received from work, gifts or other sources using a different financial instrument, such as a prepaid card or check casher, which can cost additional fees.

The EBT system also does not provide regular monthly statements to recipients so they can verify purchases and track fees. Most recipients who wish to check their balance or review past transactions call a toll-free customer service number that can provide up to two months of activity. The state provides an "EBT Client" website that can provide a much longer history but few recipients know about it, have registered to use it, or use it regularly. The state has tried to increase awareness of the website through EBT training material, card sleeves, card mailers and correspondence to the counties, however, despite the system's five-year existence, less than 30% of CalWORKs recipients currently have registered accounts and less than 1% used it during the month of January 2014. The state Department of Social Services is now considering a webinar to train county workers and advocates on the benefits of the system.

By contrast, many bank and credit union accounts offer free phone service, online account management through website and mobile phone apps, as well as monthly statements that include both the

"It is critical for consumers to have a choice of how to receive government payments... [W]e think that states should mandate that consumers have the option of direct deposit into a bank account and, if they do choose a [benefits] card, it should include the option to easily switch to direct deposit at any time.

...Additional considerations could include the type and amount of fees, broad access to a robust set of in-network ATMs, and terms that make it easier for card users to access information about their accounts without cost."

Richard Cordray

*Director of the Consumer Financial Protection Bureau
(March 18, 2014)*

detail of each transaction as well as a summary of fees paid that month. Account owners use these services extensively. As of August 2013, 51% of U.S. adults now bank online and 32% use mobile banking services.

Finally, the EBT system does not help CalWORKs recipients build a personal financial history. Without this, recipients cannot access safe and affordable financing for household purchases that support family functioning and development, such as a computer, a refrigerator, or a car. Recipients who do not have recognized financial history, such as that provided by a bank or credit union account, have a much harder time establishing good credit. Without this, families must resort to dramatically more expensive methods of financing, such as payday lenders and rent-to-own.

In truth, EBT cards are more similar to commercial prepaid cards than to bank- or credit union-issued debit cards. Prepaid card companies aggressively market to lower income households. They are much easier to obtain than bank or credit union accounts because there is no background check using credit reporting bureaus like ChexSystems, which reports on past account activity and effectively blocks millions of people from being able to open an account at most major financial institutions.

Like users of prepaid cards, EBT card users can isolate a source of income from any other household money received and spent. An EBT card can only hold CalWORKs aid, thereby protecting it from possible garnishments or liens on bank accounts. Like with many prepaid cards, it is also impossible to use an EBT card to spend more money than is available. This avoids hefty overdraft fees that are possible with many

EBT Card	Prepaid Card	Bank or Credit Union Account
✓ Receive CalWORKs and other state assistance income electronically	✓ Receive any and as many sources of income, electronically	✓ Receive any and as many sources of income, electronically
✓ Get cash back for free with purchases	✓ Get cash back for free with purchases	✓ Get cash back for free with purchases
○ Pay for purchases using a PIN	✓ Pay for purchases using a PIN or with Visa/MasterCard	✓ Pay for purchases using a PIN, Visa/MasterCard, checks, electronic funds transfer or bill pay
○ Get 4 free in-network ATM withdrawals a month	○ May not offer free in-network ATM access	✓ Get unlimited free in-network ATM withdrawals
○ Review transactions for two month by phone or longer online	○ Review all recent transactions free online or for a charge by phone	✓ Review most transactions free online, by phone, or in person
○ Monthly statements available to be mailed upon request	○ Monthly statements free online or mailed for a fee	✓ Monthly statements free online and sometimes free by mail
○ Multiple accounts available but money may not be transferred	○ Transfer money between sub-accounts where available	✓ Transfer money free between accounts
✗ Money stolen using physical EBT and PIN will not always be replaced	○ Money stolen from a prepaid card does not have to be replaced	✓ Most money stolen will be replaced if reported right away
✗ Does not build a personal financial record	✗ Does not build a personal financial record	✓ Builds a personal financial record

bank accounts that can add up and spiral out of control, leaving the person in a lot of debt and possibly with an involuntarily closed account.

However, prepaid cards can be both expensive and unsafe to use. There are no state, federal or even industry standards for prices, which allows card fee schedules to be dizzying and incomparable. Some cards appear less expensive because they do not charge a monthly fee, but ultimately can cost more depending on how they are used, how often they are used and which types of uses trigger fees. Money loaded on a pre-paid card is not always insured by the FDIC or protected by Regulation E, which limits a person's liability to \$50 for theft or fraudulent use by another person of her card if reported within two days. A person can pay many fees to buy, load and use a prepaid card and be out of luck if the card is lost or stolen or if the card provider goes under.

WHO BENEFITS FROM THE STATUS QUO?

After federal law required the delivery of food stamp benefits by EBT, many states including California, also shifted to using EBT delivery of CalWORKs cash aid to save money on writing, mailing and processing paper checks. The contract to administer the state's EBT systems is lucrative: Xerox State and Local Solutions, Inc., has a \$69 million seven-year contract through 2015, with three year-long extensions available. All 58 California counties have adapted to new infrastructure to deliver aid via Xerox's systems. This infrastructure of computer systems and forms helps make EBT cards the default method of aid delivery.

Although CalWORKs recipients have the legal right to have aid directly deposited to a personal bank or credit union account, there is no comparable single statewide infrastructure to facilitate it. Counties do not have standardized forms to process requests for direct deposit. A request for direct deposit can take six weeks for a county to process. As a result, very few CalWORKs recipients use direct deposit. For the month of August 2013, only 14,669 recipients got direct deposit statewide, 2,258 received their benefits via paper checks and 430,320 – 96.2% of all recipients used EBT card delivery.

Many CalWORKs recipients are also suspicious of banks. Many have had accounts and had bad experiences with overdraft fees, which can run as high as \$35 apiece, and which can accumulate quickly, racking up hundreds of dollars in debt to the bank. Frequent or unpaid overdraft fees are also a major reason for involuntary account closure and for being reported to ChexSystems as a potentially undesirable customer. Most banks will not open an account for those reported to ChexSystems.

Attempts by banks to provide so-called "second chance accounts" have had limited success. Programs like BankOn encourage people to open accounts but they do not prohibit participating banks from selling overdraft service and charging high fees to those who can least afford it. Though BankOn programs ask banks to voluntarily waive ChexSystems reports older than a year, or more recent ones if the person receives financial education, many branch level bank staff fail to do so consistently or perhaps ever without significant and repeated training by the BankOn municipal or non-profit partners.

BANK	Share of EBT Transactions FY 2012/13	CalWORKs Funds Received via ATM Fees
Bank of America	12.43%	\$3.6 million
JPMorgan Chase	9.02%	\$2.8 million
Wells Fargo	7.18%	\$2.3 million
Rabobank	1.38%	\$35,451
Union Bank	0.88%	\$274,977
Total	30.89%	\$9,067,283

Finally, because CalWORKs can be the only source of income for a family, many recipients avoid doing anything that might jeopardize eligibility. For example, program rules make anyone with more than \$2,000 in assets ineligible to receive aid. There are exceptions to the asset limit rule, but few people know what they are, much less want to do anything that might provoke an investigation into their eligibility. This makes owning a bank account a perceived potential liability rather than a benefit.

Yet CalWORKs recipients continue to use EBT cards at bank owned ATMs to access their grants. Almost a third of ATM transactions made in fiscal year 2012/13 were at five banks that charge for EBT use: Bank of America, Chase, Wells Fargo, Union Bank and Rabobank. Together they received over \$9 million in CalWORKs and other public assistance funds by charging EBT users fees for using their ATMs. The three largest banks in the state received the vast majority of fees: Bank of America made over \$3.6 million, Chase made over \$2.8 million, and Wells Fargo made over \$2.2 million. Union Bank received almost \$275,000. Rabobank, which in May of 2013 switched from not charging EBT users to charging them \$3 for each use, received over \$35,000 in CalWORKs aid in just the last two months of the fiscal year. Unfortunately, the fact that so many EBT users pay high fees to use bank ATMs reinforces the perception that banks are too expensive for CalWORKs recipients to use.

CALWORKS SHOULD HELP FAMILIES, NOT ATM OWNERS

CRC is working with state and county CalWORKs administrators, financial education providers and financial institutions to safeguard CalWORKs aid for family needs- not for high fees for basic financial services. Our goal is to provide CalWORKs recipients a better selection of fee-avoidant financial services and help each family make choices that will best save them money.

We believe that a partnership between these three stakeholders is key to achieving this goal. CalWORKs state and county administrators have the best information available about CalWORKs recipients and are in the strongest position possible to reach them directly while respecting privacy. Financial institutions, particularly large banks and credit unions, have the power to offer better products and the incentives to do so, including improving their public image, increasing their customer base and adding to the community support activities that gain them credit among regulators. Financial educators have proven to be effective in helping low income families create and manage household budgets, build and repair credit histories and otherwise save money to meet household needs and goals.

BANKS AND CREDIT UNIONS SHOULD OFFER NO AND LOW FEE DIRECT DEPOSIT OPTIONS

Rather than charging CalWORKs recipients to use their ATMs, California's largest banks could offer accounts that help them save money. CRC is working with some of the largest financial institutions to offer accounts that meet the needs of CalWORKs recipients, using our SafeMoney™ standards as a starting line.¹

A good account should be affordable, provide convenient ways to pay for goods and services safely, help people keep track of and manage spending, and help build a person's financial record. Recipients of CalWORKs should be able to open an account easily, with a low or no initial deposit, and use them to exercise their legal right to receive benefits via direct deposit. There should be no monthly service fee; if there is a fee, it should be easily waived with direct deposit or other easily achievable action, or be the

¹ We developed the SafeMoney™ standards in 2012 to respond to increasing fees for basic accounts. For more information, please visit www.calreinvest.org.

only fee a customer will pay while using the account. There should be no minimum balance requirement. Critically, debit card purchases should never lead to a negative balance or overdraft fees.

CalWORKs recipients who open accounts to avoid paying excessive ATM and check cashing fees should not then face a high risk of overdraft fees and negative balances that must be paid quickly to avoid involuntary account closure. Prohibiting overdraft on debit card purchases dramatically lowers customer fees. The Federal Deposit Insurance Corporation found that debit card purchases that overdraw accounts cause over 40% of all overdraft fees. The Consumer Financial protection Bureau found that accounts that allow debit card use to overdraw accounts cost customers an average of \$196 in 2011, while those that did not allow debit card overdrafts cost only \$28 on average for the whole year. Reducing overdraft fees will also keep customers in successful banking relationships longer: accounts with overdraft have an involuntary closure rate 2.5 times higher than those without.

Banks and CalWORKs county and state administrators should work together to help CalWORKs recipients easily set up direct deposit. One way to do this is to develop and adopt standardized forms that are easy to fill out and that both banks and counties can use. For example, Bank of America already provides customers with direct deposit forms already filled out with the account owners' name, the bank's name, routing number, the customer's account number and other necessary information. The account owner provides only

CRC **SAFEMONEY™** STANDARDS FOR **CALWORKS ACCOUNTS**

SERVICES AND BENEFITS	<p><u>Full Service Personal Account</u></p> <p>Account owners should be able to pay for goods and services, get federal consumer protections, manage their money easily and build a stable financial history.</p> <p><u>No Monthly Service Fee with Direct Deposit</u></p> <p><u>Free In-Network ATM, Branch and Teller Access</u></p> <p><u>Mailed Monthly Statements Free</u></p> <p><u>No Monthly Balance Requirement</u></p>
OPENING REQUIREMENTS	<p><u>No or Low Opening Deposit</u></p> <p>CalWORKs recipients should be able to open an account with no or only a very low initial deposit.</p> <p><u>U.S. or Foreign Government Photo ID</u></p> <p><u>Recent ChexSystems history except fraud ok</u></p>
ACCOUNT TERMS AND SERVICES	<p><u>Free Visa/MasterCard Debit Card</u></p> <p><u>No Overdrafts Possible with Debit Card Payments</u></p> <p><u>Money Orders and Checks Available</u></p> <p><u>Free Online Bill Pay</u></p>

Accounts that Most Closely Meet CRC SafeMoney Standards

	Bank of America		Citibank	Union Bank	Chase	Community Financial Resources
	<i>eBanking</i>	<i>MyAccess</i>	<i>Basic Banking</i>	<i>Access</i>	<i>Liquid Card</i>	<i>CFR Prepaid</i>
Personal Bank Account	Yes	Yes	Yes	Yes	No	No
Low Monthly Service Fee	No, \$8.95	No, \$12	No, \$10	Yes, \$5	Yes, \$4.95	Yes, \$0
Easiest Way to Waive Monthly Service Fee	Choose emailed statements and do not use branches.	Get direct deposit of at least \$250 a month.	Get direct deposit of any amount and use the bank's bill pay once a month.	Get monthly direct deposit of at least \$25.	Not waived, but no other fees charges.	No fee to waive.
Low Opening Deposit	Yes, \$25	Yes, \$25	Yes, \$0	Yes, \$25	Yes, \$25	Yes, \$0
Branch Access Available	Yes ¹	Yes	Yes	Yes	Yes	Yes
Mailed Statements Available	Yes ²	Yes	Yes	\$1/month	Yes	\$2/month
Flexible Identification Requirements	In Branch	In Branch	In Branch	In Branch	In Branch	Yes ³
Recent ChexSystems History Ok	No	No	No	Yes	Yes	Yes
Visa/MasterCard Debit Card	Yes	Yes	Yes	No	Yes	Yes
Fee for Debit Card Overdrafts	None	None	None	None	None	None
Personal Checks Available (for purchase)	Yes	Yes	Yes	No	No	No
Electronic Checks Available	Yes	Yes	Yes	Yes	No	No
Low Insufficient Funds Fees (Bounced Checks)	No, \$35	No, \$35	No, \$34	N/A ⁴	N/A ⁴	N/A ⁴
Online Bill Pay Available	Yes	Yes	Yes	No	No	No
Low-Cost Money Orders	No, \$10	No, \$10	No, \$5	Yes, \$1.50	No, \$5	No
Send Money via Email, Phone or Online	Yes	Yes	Yes	Yes	No	No
Chronological Transactions⁵	Yes	Yes	Yes	No	Yes	Yes
Free Money Management and Savings Tips	No	No	No	No	No	Yes ³

¹ Bank will charge the monthly service fee every month the customer uses the branch.

Note: Data is as of November 4, 2013

² Bank will charge the monthly service fee every month a statement is mailed instead of provided electronically.

³ Offered through partner community organizations.

⁴ These accounts do not offer checks.

⁵ Many banks do not deduct spending from accounts in chronological order, but rather in order of highest expenditure to lowest, or by type of transaction such as electronic transfers before checks. Lack of chronological processing can lead to more frequent overdraft fees.

the name and address of the government agency that will deposit the money. The bank then mails the form on the customer's behalf.

Finally, banks and credit unions that have or that develop accounts that meet SafeMoney™ standards should proudly advertise them in all locations where customers might need those services. The CFPB recently found the industry spends \$17 billion in advertising and only \$670 million on financial education in partnership with local, state and federal agencies, non-profit organizations and others. This is an opportunity to do both.

Banks should notify the state Department of Social Services and county CalWORKs administrators of their commitment to offering fee-avoidant accounts to CalWORKs recipients and work with those agencies to help recipients gain access to the products. They should develop online and print materials that are attractive, easy to read, and advertise the low account costs, the variety of financial services and benefits, the ease of direct deposit set up, and convenient locations. Ideally, participating banks would pay to create co-branded materials that are prominently available in county offices and non-profit organizations that serve families that receive CalWORKs assistance.

CRC PROPOSES THAT BANKS AND CREDIT UNIONS HELP PROTECT CALWORKS INVESTMENTS IN FAMILIES BY:

- Offering checking accounts that satisfy SafeMoney™ standards,
- Working with state and county agencies to create easy setup for direct deposit of CalWORKs benefits, and,
- Advertising with attractive, easy to use materials that are distributed via state and county agencies and nonprofits that serve families receiving CalWORKs.

THE STATE AND COUNTIES CAN HELP RECIPIENTS AVOID FEES

California's Department of Social Services, the Alameda County Social Service Agency and the Los Angeles County Department of Public Social Services have already made efforts to reduce the amount of CalWORKs aid spent on fees. All of them can build on these efforts by working together, with financial institutions and non-profit service providers.

PROVIDE PERSONAL MONTHLY STATEMENTS OF EBT FEES AND TRANSACTIONS

The California Department of Social Services and the state's EBT contractor, Xerox State and Local Solutions, Inc., can work together to notify recipients exactly how much they are spending on fees. Both the state and Xerox have information about each fee a CalWORKs recipient pays using her EBT card. The state is using this information as part of a pilot program targeting recipients who pay more than five fees in a month. Every month, those recipients will receive a phone call playing a recorded message informing them that they have spent a lot of money on ATM fees (but not how much), that they can use MoneyPass ATMs for free or sign up for direct deposit, and that they can visit the state website or their county worker for more information.

The state's next step should be to provide every CalWORKs EBT user a monthly statement of transactions, including a summary of fees paid every month. The state currently offers transaction history passively: recipients must call the customer service number or register a separate account on the EBT Client website. A monthly statement mailed to each recipient would more actively notify her about her transactions, giving her a better opportunity to verify charges.

The statement should include a highlighted summary of the amount and type of fees a recipient has paid in the month. They should also include generic information about how to avoid future fees, such as the locations of the MoneyPass ATMs and other bank and credit union owned ATMs that are free for EBT card users and of stores that offer cash back free with purchase.

TELL RECIPIENTS ABOUT FEE-AVOIDANT ACCOUNT OPTIONS

CalWORKs recipients need to know what alternatives exist to lower the amount of money they spend on financial service fees. Currently, most recipients do not know that they can get CalWORKs aid by direct deposit to a bank or credit union account or that doing so can help avoid fees. The state Department of Social Services can change this by informing recipients about fee-avoidant bank and credit union account options to receive CalWORKs aid by direct deposit.

The state could take on an annual task of collecting information about accounts that help customers avoid fees, such as those that are free or low cost, offer waived monthly service fees to recipients with direct deposit, and do not allow debit card purchases to overdraw the account. This can be collected through a public, voluntary request for information to banks and credit unions inviting them to provide their account features. The state could ask direct questions for the banks to answer, such as "Which of the bank's or credit union's accounts are free? Which cost under \$5 a month? Which offer waived monthly service fees for recipients of direct deposit?" and "Which accounts ensure that debit card purchases do not exceed available funds?" Once collected, the state should distribute the information to the counties through All County Information Notices.

EMPHASIZE CHOICE AND FACILITATE OPPORTUNITIES TO LOWER FEES

Counties can also build on existing efforts to reduce the amount of money spent on financial service fees. Both Alameda and Los Angeles Counties can support their staff and clients by building the capacity of staff who regularly interact with recipients, such as eligibility workers and employment counselors, to help recipients avoid financial service fees. In fact, county staff are likely to have many of their own

questions about bank fees, prepaid cards, and ways to save money on basic financial transactions. Counties should offer staff financial training they can use personally, using materials that explain common financial service fees, how to avoid overdraft and prepaid card fees, and which consumer protections to look for. The goal is not to make county employees expert financial advisors, but to help them confidently conversant about mundane financial issues like how to avoid fees.

Counties should then take three additional steps: establish protocols to ensure that conversations about financial service fees are taking place during opportunities where recipients have in-depth interactions with county staff, such as employment counseling; develop better supporting materials; and provide recipients with a more deliberate approach to selecting EBT or direct deposit.

For example, both counties currently provide written materials explaining where and how to use EBT cards and an overview of direct deposit. However, recipients receive these as part of a much larger packet of information and there is no guarantee that a county worker has discussed fee-avoidant ways to use the EBT card or get direct deposit. The recipient's opportunity to select EBT or direct deposit passes quickly and without consideration of the pros and cons of each choice. This is how EBT has become the default choice for the vast majority of recipients.

Both counties could alter application and recertification processes to include a step for discussing the fees a recipient would face if she chooses EBT or direct deposit *before* asking her to make a selection. Forms should frame the choice of direct deposit or EBT affirmatively, i.e., stating in bold letters, ***"You Have a Choice between EBT and Direct Deposit"***.

Counties should work with employees who interact frequently, and/or in-depth with recipients (such as employment counselors) and with non-profit financial educators, to develop a protocol for discussing the factors affecting a recipients choice between EBT and direct deposit. The conversation must be fast and effective: county staff must be able to integrate it into already lengthy meetings with recipients, and recipients must be able to hear and process the information and opportunities presented.

County staff could ask key questions to help recipients make the best choice, such as:

- Which ATMs are you most likely to use to withdraw cash? If those are not free for EBT users, can you easily get to ATMs that are free for EBT?
- Do you need more than four ATM withdrawals a month?
- Do you already have a bank account? Could you get that account – or a new account – free if you get CalWORKs directly deposited? Does your bank make sure you do not overdraft when you use a debit card?
- Do you want to keep CalWORKs aid separate from other income? Do you want to manage all income in one place?

Counties should develop attractive, easily understood supporting materials, such as flyers, brochures, website pages, and videos that effectively explain the costs and benefits of different financial services. County social service agencies could collaborate with consumer protection agencies and programs, such as Los Angeles County's Department of Consumer Affairs, to develop these materials. A colorful, glossy handout could illustrate how much it would cost to pay a set of bills using a combination of EBT and check casher services, EBT and prepaid card, EBT and bank account or only a bank account. Banners in county offices could promote no- and low-fee banking services and direct deposit.

Other information to provide includes:

- Neither the state or the county will ever be able to see into a person's bank or credit union account or know how they use the money in it,
- The state does know when EBT cards are used, the amount spent or withdrawn or the location,
- Many banks and credit unions offer free accounts to people who use direct deposit, and common bank fees can be avoided (for example, many overdraft fees can be avoided by telling the bank not to pay for debit card purchases for more than the amount in the account),
- Bank or credit union account owners will be reimbursed for thefts from the account and will not lose more than \$50 if the account owner reports the loss within 24 hours and is not committing fraud,
- EBT users may not be reimbursed if someone steals their card and uses the correct PIN to get cash or pay for a purchase,
- Though CalWORKs cash aid cannot be garnished, it may be more difficult to protect this money once it is mixed with other money in a bank account, and
- Recipients can decide to use either EBT or direct deposit and can change their mind at any time.

Finally, counties should repeat the message that recipients can avoid using CalWORKs money to pay financial service fees wherever recipients are likely to see it: on their web sites, in written materials in county waiting areas, and through videos displayed in county offices.

How much will it cost to pay bills?

A mom who makes \$230 a month from a part-time job and receives \$510 cash aid from CalWORKs has options for how to get cash and pay bills.

*In the **best-case scenario**, this is how much it would cost her to pay bills and get cash using...*

An EBT Card and the Check Casher

- 2% of her paycheck to cash it, \$4.60
- \$1.50 for a money order for rent
- \$1.50 to pay a utility bill with cash at the check casher
- \$1.50 to pay a mobile phone bill with cash at the check casher
- \$1.50 for a money order that will be mailed to pay car insurance
- \$0 to use the EBT card to get cash 5 times, including 4 times at a MoneyPass ATM and once by getting cash-back when paying at the grocery store.

= \$10.60

An EBT Card and a Prepaid Card

- \$0 to directly deposit her paycheck to the prepaid card
- \$0 to pay the utility, mobile phone and car insurance bills online using the prepaid card's Visa or MasterCard number
- \$4.95 monthly service fee for the prepaid card
- \$1.50 to buy a money order to pay rent
- \$0 to use the EBT card to get cash 5 times during the month, including 4 times at a MoneyPass ATM and once by getting cash-back when paying at the grocery store.

= \$6.45

A Bank or Credit Union Account

- \$0 to direct deposit both her paycheck and CalWORKs income to her account
- \$0 to pay the utility bill, mobile phone bill and car insurance online using the debit card Visa or MasterCard number
- \$0 to pay rent with a check
- \$0 to use the bank or credit union's ATM as many times as she wants

=\$0

MAKE SIGNING UP FOR DIRECT DEPOSIT EASY

Both state and county administrators should work with banks to make setting up direct deposit simple and fast. Currently it can take some counties six weeks in some areas to set it up and it may not be clear to the recipient what will happen to her grant during this process. At minimum, recipients should be able to use an EBT card immediately and without interruption and know when the first deposit will arrive in the account she has chosen. Ideally, recipients should be able to sign up for direct deposit through their county worker, online or using standardized forms developed by the state or county in partnership with banks.

MAKE THE NEXT EBT CONTRACTOR PROVIDE LOWER COST SERVICES

The state's current contract with Xerox State and Local Solutions, Inc. is set to expire in 2015 unless the state uses one of the three available one-year extensions. CRC is in the process of researching best practices by other states that provide benefits electronically and do so without passing on costs to recipients or siphoning benefits away from families. We hope that the state Department of Social Services will consider these and apply the state's negotiating power to create a benefits delivery system that helps recipients avoid fees and save money.

CRC PROPOSES STATE AND COUNTY CALWORKS ADMINISTRATORS PROTECT CALWORKS INVESTMENTS IN FAMILIES BY:

- Informing CalWORKs recipients of the fees they pay by sending a regular, monthly statement of transactions,
- Emphasizing to recipients that they can choose to receive aid via EBT or direct deposit, describing the pros and cons so each recipient can decide for herself what she needs and wants,
- Educating county staff about fees so they and their clients can avoid them,
- Providing recipients information about fee-avoidant accounts,
- Working with banks to simplify and speed up setting up direct deposit, and
- Negotiating the next EBT contract so that it is more affordable to recipients.

FINANCIAL EDUCATION AND ASSET-BUILDING PROGRAMS ARE KEY RESOURCES

State and county agencies, banks and credit unions should work with non-profit community organizations to provide all recipients ongoing support to avoid fees, whether they choose EBT or direct deposit. Counties already contract with service providers on a variety of issues, including financial education and planning. Banks also support financial education efforts. These programs need and deserve stronger financial support from all partners to reach more people.

Many proven and highly respected organizations offer sophisticated financial education programs such as the Money Smart curriculum developed by the FDIC, the “Your Money, Your Goals” developed by the Consumer Financial Protection Bureau, and the “Savvy Consumer Toolkit” developed the Alameda County Community Assets Network. Many of these organizations also offer credit building, credit repair, debt settlement and expungement assistance, access to micro-loans for self-employment, and help saving towards self-sufficiency in ways that will not jeopardize eligibility for CalWORKs and other programs that use asset rules.

With the support of banks and government agencies, these organizations could reach many of the 450,000 CalWORKs recipients across the state. To do so, providers would need to adapt their existing financial education curriculum to include information on avoiding EBT fees. Unfortunately, a search for existing models engaging EBT fees directly yielded no results. On a positive note, organizations can be creative about how to integrate the material in ways that are most relevant to their client’s experiences.

For example, community colleges could also be great partners given their high contact with the over 35,000 CalWORKs recipients who are students. The California Community College CalWORKs Association includes students, college counselors and administrators who work together to ensure the success of CalWORKs recipients attending college. Colleges often deliver student financial aid through free student bank accounts offered by banks contracted by the college to do so. Few students are also aware that they can use these accounts to receive their CalWORKs grant. As a result, students may be paying fees to use their EBT card at an ATM where they already have an account.

Counselors can help students sign up for direct deposit of CalWORKs in the same accounts they receive financial aid. Alternatively, the colleges could engage students more proactively about their choice of financial services, helping them to choose a provider that is most convenient and affordable whether it is the institution contracted by the school or otherwise.

Additional partners could include organizations already contracted to provide other services, such as employment training, child care referral and placement centers, domestic violence prevention, and financial literacy to name a few. Many of these organizations have classes or one-on-one services that can be adapted to integrate engagement on the choice of financial services and its effects on financial stability.

CRC PROPOSES THAT FINANCIAL EDUCATION PROVIDERS HELP PROTECT CALWORKS INVESTMENTS IN FAMILIES BY:

- Reaching out to CalWORKs recipients with support from government agencies and financial institutions,
- Adapting financial education materials to include EBT fees and how to avoid them, and
- Integrating these services where they are most relevant to clients.

Successes to Build On and Models to Learn From

The work we need to do to protect CalWORKs funds from costly fees is not without precedent. The California Department of Social Services, Alameda County and Los Angeles County have all taken strong steps to help CalWORKs recipients avoid fees and gain financial stability. In other states, effective advocacy and partnerships between government agencies, non-profit organizations, and financial institutions yield critical lessons.

California Department of Social Services “EBT Working Group” has brought together state and county administrators and advocates across the state to reduce the fees EBT users pay. The Group is now developing materials that explain the choice between EBT and direct deposit.

The Center for Hunger-Free Communities at Drexel University and the Pennsylvania Department of Public Welfare are working to develop the “**Building Wealth and Health Network**.” The project involves a peer-oriented, asset-building model that helps women break the cycle of poverty through matched savings accounts, financial literacy classes and peer support groups using the Sanctuary® trauma-informed approach to social services.

The Washington State Department of Commerce and The Prosperity Agenda are working together to connect households on public assistance with affordable banking services. The focus of this work includes the promotion of future EBT service contracts that provide no-fee bank accounts to recipients.

The Alameda County Social Services Agency has launched an “**Asset Building Pilot**” that is showing early success. Twenty recipients of CalWORKs and General Assistance are now participating in financial education workshops and one-on-one credit coaching sessions. Preliminary findings show participation is most consistent when Employment Counselors conduct direct outreach to potential participants and sessions occur during paid work hours.

The Los Angeles Department of Public Social Services has developed a mobile app counterpart to its “**Your Benefits Now**” website. The app, now available on iPhone and being developed for Android, provides ongoing EBT balance information and the ability to upload reports for continued eligibility.

NEXT STEPS

The catalyst for this campaign emerged from CRC's participation in the EBT Working Group formed by the California Department of Social Services. Our first reaction to learning that ATM providers including the largest banks in the state were extracting fee revenue of over \$19.4 million a year in CalWORKs and other aid was to ask the banks to waive the fees. Though thankfully several banks do waive the fees, this answer would not meet the broader need that CalWORKs recipients have for financial services. We believe that by working together, state and county CalWORKs administrators, financial institutions and financial education providers can do both: protect CalWORKs aid for the purpose it is intended, and provide the necessary financial services every California family needs to maintain a household.

This report reflects the ideas generated during dozens of conversations with stakeholders in Sacramento, Alameda County, and Los Angeles County. We invite feedback from stakeholders and thought leaders, CalWORKs recipients and advocates, and allies across the state and country. We will use this feedback to fashion our work in the coming months.

Our next step is to convene the stakeholders in two meetings, one in Alameda County and the other in Los Angeles County to,

- Develop a shared understanding among stakeholders of the cost and other impact to families and the state of CalWORKs and other programs money being used to pay avoidable financial service fees, including the \$19.4 million spent by EBT users on ATM fees alone in 2012,
- Learn from existing efforts in California, Pennsylvania and Washington State to reduce financial service fees and increase access to better financial services,
- Prioritize specific administrative and programmatic interventions to increase awareness and avoidance of financial service fees among CalWORKs recipients through breakout group discussions that will report back, and,
- Develop a timeline for program development and implementation.

We invite all stakeholders and allies to respond to this report with your feedback, insights and recommendations. To do so, please fill out the [\\$19 Million Fee Survey](#) or contact Andrea Luquetta directly by phone at 415-864-3980 or by email at aluquetta@calreinvest.org.

Please join us, support our efforts and help make sure all of CalWORKs aid is not spent on fees but for what it was intended, to “provide for protection, care, and assistance to the people of the state in need.”

ⁱ A white paper by the CFPB noted that overdraft fees account for 61% of checking account fee revenue. Moebis Services, Inc. estimated 2013 overdraft revenue at \$31.8 billion.

ⁱⁱ The CFSI 2012 Financially Underserve Market Study breaks out industry revenue by product segment.

ⁱⁱⁱ This figure results from California's share of national GDP (13%), the amount spent on these services nationally, and the number of Californians receiving CalWORKs cash aid.

^{iv} According to the Self-Sufficiency Standard developed by the Insight Center for Community Economic Development.